

Message Text

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PAGE 01 PRETOR 01965 01 OF 02 080916Z
ACTION EB-08

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TO SECSTATE WASHDC 923
INFO AMCONSUL CAPE TOWN
AMCONSUL DURBAN
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UNCLAS SECTION 1 OF 2 PRETORIA 1965

CAPE TOWN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: ECON, EFIN, SF
SUBJECT: HIGHLIGHTS OF RESERVE BANK QUARTERLY REPORT

1. SUMMARY: QUARTERLY BULLETIN OF RESERVE BANK REPORTS THAT SOUTH AFRICA HAD ONLY A MARGINAL REAL GROWTH IN GDP OF 0.5 O/O IN 1977. THIS COMPARES WITH 1.3 O/O IN 1976 AND IS LOWEST REAL GROWTH RATE SINCE 1930'S. 1977 IS ALSO THIRD CONSECUTIVE YEAR THAT REAL GROWTH IN GDP HAS BEEN AT OR BELOW 2.5 O/O RATE OF POPULATION GROWTH AND THUS THIRD YEAR OF DECLINING REAL PER CAPITA GDP. REAL GDP PERFORMED SLIGHTLY BETTER THAN GDP INCREASING 1 O/O VS. DECLINE OF 1 O/O IN 1976. ON A SECTORAL BASIS, AGRICULTURE AND NO-GOLD MINING SHOWED LARGE REAL INCREASES WHILE INDUSTRY AND COMMERCE DECLINED. REAL GROSS DOMESTIC EXPENDITURE WAS OFF SIGNIFICANTLY MORE THAN GDP, DECLINING BY 5 O/O.

2. CURRENT ACCOUNT DEFICIT OF R1,630 MILLION IN BALANCE OF PAYMENTS IN 1976 WAS CONVERTED INTO A SURPLUS OF
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PAGE 02 PRETOR 01965 01 OF 02 080916Z

R751 MILLION IN 1977, BASED ON A 29 O/O INCREASE IN EXPORTS AND A 7 O/O DECLINE IN IMPORTS. NET OUTFLOW OF R1,096 MILLION ON CAPITAL ACCOUNT, HOWEVER, OFFSET CURRENT ACCOUNT SURPLUS AND CAUSED DECLINE OF R124 MILLION IN NET FOREIGN EXCHANGE RESERVES. TREND IN NET RESERVES OVER COURSE OF YEAR WAS POSITIVE, WITH FOURTH QUARTER PRODUCING AN INCREASE OF R59 MILLION. DECLINE OF 0.2 O/O

IN NON-AGRICULTURAL EMPLOYMENT OCCURRED WHICH IS OF PARTICULAR CONCERN IN VIEW OF LARGE NUMBERS OF BLACKS ENTERING LABOR FORCE. AVERAGE MONTHLY INCREASE IN CONSUMER PRICE INDOX IN 1977 WAS 11.3 O/O COMPARED TO 11.1 O/O IN 1976. END SUMMARY

3. NATIONAL ACCOUNTS AND TRENDS: MARCH QUARTERLY BULLETIN OF RESERVE BANK WHICH COVERS ALL OF 1977 SHOWS THAT GROSS DOMESTIC PRODUCT AS CONSTANT PRICES GREW BY 0.5 O/O LAST YEAR (SINCE CORRECTED TO 0.6 O/O). DUE TO IMPROVEMENT IN TERMS OF TRADE, GROSS NATIONAL PRODUCT AT CONSTANT PRICES PERFORMED SLIGHTLY BETTER, INCREASING BY 1 O/O. WHEN 1977 GDP FIGURE IS COMBINED WITH THE 1.3 O/O REAL GROWTH RATE IN 1976 AND 2.5 O/O (REVISED) FOR 1975, AN AVERAGE ANNUAL GROWTH OF ONLY 1.5 O/O EMERGES FOR THE THREE YEARS COMPARED TO A POPULATION GROWTH OF 2.5 O/O (I.E., A DECLINE IN REAL PER CAPITA GDP). ON A QUARTERLY BASIS, REAL GDP DECLINED IN THE FIRST AND THIRD QUARTERS OF 1977 AND INCREASED IN THE SECOND AND FOURTH. AT CURRENT PRICES, GDP AMOUNTED TO R33,820 MILLION (\$38,893M) IN 1977, 14.2 O/O ABOVE 1976. THE PRIMARY AND SECONDARY SECTORS SHOWED DIVERGENT TRENDS. AGRICULTURE AND NON-GOLD MINING PERFORMED STRONGLY WITH 14 O/O AND 15 O/O RATES OF REAL GROWTH WHILE REAL DECLINES WERE POSTED IN MANUFACTURING (-5 O/O), CONSTRUCTION (-9 O/O), WHOLESALE AND RETAIL TRADE (-7 O/O), AND GOLD MINING (-2 O/O). GENERAL GOVERN-

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PAGE 03 PRETOR 01965 01 OF 02 080916Z

MENT GREW BY 4 O/O AS DID TRANSPORT AND COMMUNICATION AT 7 O/O. EXCLUDING AGRICULTURE AND NON-GOLD MINING, REAL VALUE ADDED BY SECONDARY AND TERTIARY SECTORS DECLINED BY 1.5 O/O. GROSS DOMESTIC EXPENDITURE WAS CONSIDERABLY WEAKER THAN GDP, DECLINING BY 5 O/O IN REAL TERMS. THIS REFLECTED THE FACT THAT REAL PRIVATE CONSUMPTION EXPENDITURE SHOWED ITS FIRST ANNUAL DECLINE SINCE WORLD WAR II AND DOMESTIC SAVINGS INCREASED RAPIDLY BY R2,076 MILLION. GOVERNMENT CONSUMPTION FELL IN REAL TERMS BY 1 O/O WHILE REAL GROSS DOMESTIC FIXED INVESTMENT DECLINED MASSIVELY BY 10 O/O. OF THIS LAST FIGURE, PRIVATE INVESTMENT FELL BY 9 O/O AND PUBLIC AUTHORITIES INVESTMENT BY 19 O/O.

4. BALANCE OF PAYMENTS - CURRENT ACCOUNT : BY FAR THE MOST FAVORABLE TREND IN THE ECONOMY WAS THE CURRENT ACCOUNT WHERE DEFICITS OF R1,630 MILLION AND R1,813 MILLION IN 1975 AND 1976 RESPECTIVELY WERE TRANSFORMED INTO A SURPLUS OF R751 MILLION IN 1977. THIS IS FIRST SURPLUS ON CURRENT ACCOUNT SINCE 1968. AFTER A SMALL DECLINE IN THE FIRST QUARTER, SURPLUSES OF R302 MILLION, R233 MILLION AND R194 MILLION WERE POSTED IN THE FINAL THREE QUARTERS. MAIN SOURCE OF SURPLUS WAS 29 O/O INCREASE

IN MERCHANDISE EXPORTS TO R6,332 MILLION. DIAMONDS, IRON ORE, COAL, URANIUM, CHROME AND SUGAR SHOWED THE LARGEST INCREASES. NET GOLD OUTPUT (CALCULATED SEPARATELY FROM MERCHANDISE EXPORTS) WAS UP 19 O/O TO R2,795 MILLION OWING ENTIRELY TO THE HIGHER GOLD PRICE IN M 1977. ALSO CONTRIBUTING TO THE SURPLUS WAS A DECLINE OF 7.4 O/O IN IMPORTS TO R6,893 MILLION. VIRTUALLY ALL IMPORT CATEGORIES WERE AFFECTED WITH MACHINERY, ELECTRICAL EQUIPMENT, TEXTILES AND TRANSPORT EQUIPMENT (EXCLUDING SHIPS) SHOWING THE STEEPEST DECLINES. NET PAYMENTS FOR SERVICES AND TRANSFERS TO REST OF WORLD INCREASED SLIGHTLY TO R1,483 MILLION.

5. CAPITAL ACCOUNT: SURPLUS ON CURRENT ACCOUNT IN 1977
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PAGE 04 PRETOR 01965 01 OF 02 080916Z

WAS OFFSET BY A NET CAPITAL OUTFLOW OF R1,096 MILLION COMPARED TO A NET INFLOW OF R1,110 MILLION IN 1976. LONG-TERM CAPITAL CONTINUED TO SHOW A NET INFLOW OF R211 MILLION, BUT WAS WELL BELOW 1976 LEVEL OF R989 MILLION. DECLINE WAS DUE PRIMARILY TO MUCH LOWER LEVEL OF INFLOW TO PUBLIC CORPORATIONS AND NET REPAYMENTS OF FOREIGN LOANS BY CENTRAL GOVERNMENT. MOST OF LONG-TERM INFLOW WAS TO PRIVATE SECTOR (R223 MILLION). BASIC BALANCE COMPRISING CURRENT ACCOUNT PLUS LONG-TERM CAPITAL FLOWS SHOWED A SURPLUS OF R962 MILLION COMPARED TO DEFICIT OF R641 MILLION IN 1976. BASIC BALANCE WAS, HOWEVER, OFFSET BY A R1,086 MILLION OUTFLOW OF SHORT-TERM CAPITAL. OF THIS, R610 MILLION ATTRIBUTED TO PRIVATE SECTOR AND R585 MILLION TO ERRORS AND UNRECORDED TRANSACTIONS. LATTER FIGURE

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PAGE 01 PRETOR 01965 02 OF 02 071754Z
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R 071505Z APR 78
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INFO AMCONSUL CAPE TOWN
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UNCLAS SECTION 2 OF 2 PRETORIA 1965

TO ERRORS AND UNRECORDED TRANSACTIONS. LATTER FIGURE WHICH WAS NEARLY R200 MILLION ABOVE PREVIOUS YEAR IS BELIEVED TO BE LARGELY ACCOUNTED FOR BY ILLICIT CAPITAL OUTFLOWS. BOTH NET INFLOW OF LONG-TERM CAPITAL AND LARGER SHORT-TERM OUTFLOW SHOWED FAIRLY CONSISTENT TREND OVER COURSE OF 1977 ALTHOUGH SHORT-TERM OUTFLOW DECLINED SOMEWHAT IN FOURTH QUARTER TO R204 MILLION COMPARED TO R320 MILLION AND R339 MILLION IN TWO PREVIOUS QUARTERS. RESERVE BANK ATTRIBUTES SHORT-TERM OUTFLOW TO (A) POLITICAL UNCERTAINTIES AND (B) DECLINE IN IMPORTS WHICH CAUSED NET REPAYMENTS OF IMPORT CREDITS.

6. RESERVES: AS RESULT OF CAPITAL ACCOUNT OFFSETTING CURRENT ACCOUNT SURPLUS, NET FOREIGN EXCHANGE RESERVES DECLINED BY R124 MILLION. HOWEVER, THERE WAS AN IMPROVING TREND OVER YEAR WITH MOST OF DECLINE OCCURRING IN FIRST QUARTER AND FOURTH QUARTER SHOWING INCREASE OF R59 MILLION. GROSS GOLD AND FOREIGN EXCHANGE RESERVES DECLINED BY R99 MILLION IN 1977 TO A LEVEL OF R788 MILLION AT END OF YEAR.
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PAGE 02 PRETOR 01965 02 OF 02 071754Z

7. LABOR: PEHPAPS SINGLE MOST SOBERING STATISTIC IN REPORT IS FACT THAT TOTAL EMPLOYMENT IN NON-AGRICULTURAL SECTORS DECLINED BY 0.5 PERCENT IN FIRST THREE QUARTERS OF 1977. THIS IS FIRST SUCH DECLINE IN LAST FIFTEEN YEARS AND IS OF PARTICULAR CONCERN WHEN VIEWED AGAINST FACT THAT 290,000 2000,000 PERSONS, MOSTLY BLACKS, ARE ENTERING WORKFORCE EACH YEAR. MANUFACTURING, CONSTRUCTION AND TRADE SHOWED DIMINISHING EMPLOYMENT WHILE MINING AND PUBLIC SECTOR INCREASED. REGISTERED UNEMPLOYMENT OF WHITES, COLOREDS AND ASIANS JUMPED FROM 21,000 IN DECEMBER 1976 TO 34,000 IN DECEMBER 1977. THIS AMOUNTED TO 1.7 O/O OF THESE GROUPS. FIRST GOVERNMENT SURVEY OF UNEMPLOYMENT AMONG BLACKS IN OCTOBER 1977 SHOWED 634,000 OR 12.4 O/O OUT OF WORK. HOWEVER, SURVEY DIFINITION WAS NARROW, EXCLUDING MOST NOTABLY UNDEREMPLOYED IN TRADITIONAL AGRICULTURAL SECTOR. REAL WAGES (NON-AGRICULTURAL) FELL BY 1.6 O/O

IN FIRST THREE QUARTER OF 1977 VS. AN INCREASE BY SAME AMOUNT IN 1976. REAL WHITE WAGES DECLINED 3.4 O/O IN 1977 WHILE NON-WHITE WAGES WERE UP marginally BY 0.4 O/O.

8. PRICES: AVERAGE MONTHLY INCREASE IN CONSUMER PRICE INDEX WAS 11.3 O/O IN 1977 COMPARED TO 11.1 O/O IN 1976. PRICES SHOWED DECLINING TREND OVER YEAR WITH FOURTH QUARTER INCREASE AT 9.1 O/O RATE BUT ARE LIKELY TO INCREASE AGAIN IN EARLY 1978 DUE TO ADMINISTERED PRICE INCREASES AND NEW SALES TAXES. WHOLESALE PRICES ROSE BY 12.9 O/O IN 1977.

9. MONEY SUPPLY AND GOVERNMENT FINANCE: SUPPLY OF MONEY AND NEAR MONEY INCREASE BY 7 O/O IN 1977 COMPARED TO 9 O/O IN 1976 IN FOURTH QUARTER, MONEY SUPPLY DE-UNCLASSIFIED

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PAGE 03 PRETOR 01965 02 OF 02 071754Z

CLINED BY 2 O/O AFTER RISES OF 6 O/O AND 27 O/O IN TWO PREVIOUS QUARTERS. LOWER GROWTH OF MONEY SUPPLY IN ATTRIBUTED TO DECLINE IN NET CLAIMS OF BANKING SECTOR ON GOVERNMENT, LOWER GROWTH IN BANK CREDIT TO PRIVATE SECTOR, AND HIGHER LEVEL OF LONG-TERM DEPOSITS WITH BANKING SECTOR. FACT GROWTH IN MONEY SUPPLY WAS WELL BELOW RATE OF INFLATION IS CONSIDERED BY MANY ECONOMISTS AS MAJOR FACTOR IN PROLONGATION OF RECESSION. GOVERNMENT EXPENDITURES INCREASE BY ONLY 5.7 O/O DURING 1977 COMPARED TO 12 O/O IN 1976. THIS INCREASE, WELL BELOW INFLATION RATE, SIGNIFIED A REAL DECLINE IN GOVERNMENT SPENDING AND CONTRIBUTED SIGNIFICANTLY TO LOWER LEVEL OF ECONOMIC GROWTH.

10. COMMENT: SOUTH AFRICA'S POOR ECONOMIC PERFORMANCE IN 1977 DEMONSTRATES EXTENT TO WHICH POLITICAL FORCES HAVE COME TO DOMINATE ECONOMY. WITH SHARP UPSWINGS IN MINING AND AGRICULTURAL EXPORTS, THE COUNTRY SHOULD, UNDER NORMAL ECONOMIC CYCLE, HAVE BEEN WELL INTO A RECOVERY BY SECOND HALF OF YEAR. INSTEAD, BALANCE OF PAYMENTS PRESSURES CREATED BY NET CAPITAL OUTFLOW DICTATED A RESTRICTIVE GOVERNMENT MONETARY AND FISCAL POLICY WHICH COUPLED WITH THE IMPACT OF POLITICAL EVENTS ON DOMESTIC BUSINESS AND CONSUMER CONFIDENCE COMPLETELY OFFSET STIMULATORY INFLUENCE OF EXPORTS, FOR 1978, SEVERAL FAVORABLE TRENDS ARE AT WORK INCLUDING AN IMPROVING BALANCE OF PAYMENTS AND SOMEWHAT MORE EXPANSIONARY GOVERNMENT POLICY AND A STRONG GOLD PRICE. HOWEVER, EVEN A MODERATE RECOVERY TO PERHAPS 2.5 O/O REAL GROWTH WILL REQUIRE A REVIVAL IMPROVEMENT IN CONSUMER SPENDING. INCOME TAX CUTS IN NEW BUDGET MAY HAVE BEEN ENOUGH TO ACHIEVE THIS, BUT RETURNS ARE NOT YET IN. EVEN IF A 2.5-3.0 O/O GROWTH IS ACHIEVED IN 1978, VIEW OF ONE LEADING

ECONOMIST IS THAT, WITH SLOWING DOWN OF THE MAJOR
WESTERN ECONOMIES, SOUTH AFRICA HAS NOW MISSED A FULL
TURN OF THE ECONOMIC CYCLE AND IT MAY BE DIFFICULT
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PAGE 04 PRETOR 01965 02 OF 02 071754Z

TO RESUME REAL GROWTH IN PER CAPITAL GDP OVER NEXT
FEW YEARS. ABSENCE OF FOREIGN CAPITAL INFLOWS AND
INTERNATIONAL POLITICAL ENVIRONMENT MAKE THES
CONCERNS MORE ACUTE.
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